

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

CHURCH LIFE INSURANCE CORPORATION

AS OF

DECEMBER 31, 2002

DATE OF REPORT:

JANUARY 30, 2004

EXAMINER:

PHARES CATON

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

George E. Pataki  
Governor

Gregory V. Serio  
Superintendent

January 30, 2004

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22063, dated June 19, 2003 and annexed hereto, an examination has been made into the condition and affairs of the Church Life Insurance Corporation, hereinafter referred to as "the Company," at its home office located at 455 5<sup>th</sup> Avenue, New York City, New York 10016.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

## 1. EXECUTIVE SUMMARY

A review of the Company's December 31, 2002 asset adequacy analysis suggested that additional reserves would be appropriate for the individual annuity business, in light of the prevailing low interest rate environment. Accordingly, the Company strengthened individual annuity reserves by the amount of \$13,545,233 as of December 31, 2003. (See item 5D of this report)

The examiner's review of the Company's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Company. (See item 6 of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 through December 31, 2002. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2002 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2002 to determine whether the Company's 2002 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Company history
- Management and control
- Corporate records
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Mortality and loss experience
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violations and the recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

### 3. DESCRIPTION OF COMPANY

#### A. History

The Company was incorporated as a stock life insurance company under the laws of New York on June 20, 1922, was licensed on June 24, 1922 and commenced business on July 1, 1922. Initial resources of \$155,000, consisting of common capital stock of \$100,000 and paid in and contributed surplus of \$55,000, were provided through the sale of 1,000 shares of common stock (with a par value of \$100 each) for \$155 per share.

Increases to the capital and paid in and contributed surplus of the Company resulted in capital of \$6,000,000 and paid in and contributed surplus of \$6,000,000, as of December 31, 2002. There are now 60,000 shares of common stock outstanding with a par value of \$100 per share.

#### B. Holding Company

The Company is a wholly owned subsidiary of the Church Pension Fund, a pension fund that is deemed an authorized insurer. As a subsidiary of an authorized insurer the Company is exempt from the provisions of Article 15 of the New York Insurance Law.

#### C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 15 directors. Directors are divided into two classes, as nearly equal as may be, to be elected annually in consecutive years for a term of two years. The by-laws provide for the election of directors to be held annually at the annual meeting of the stockholders held in January of each year. As of December 31, 2002, the board of directors consisted of ten members. Meetings of the board are held semi-annually.

The ten board members and their principal business affiliation, as of December 31, 2002, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
James E. Bayne* Dallas, TX	Consultant Retired	2000
Sheridan C. Biggs* New York, NY	Retired Partner PricewaterhouseCoopers	1998
The Reverend A. Thomas Blackmon* Dallas, TX	Curate Church of the Incarnation	2000
Alan F. Blanchard New York, NY	President Church Life Insurance Corporation	1991
Elizabeth D. Conklyn* San Antonio, TX	Senior Vice President – Human Resources United Services Automobile Association	2002
Barbara B. Creed* San Francisco, CA	Attorney Shareholder, Tucker, Huss, APC	2002
Arthur K. Kusumoto* Wailuku, HI	Retired Director Financial Estates Corporation	1997
The Reverend Peter J. Lee* Richmond, VA	Bishop Diocese of Virginia	2000
The Reverend Noreen P. Suriner* Binghamton, NY	Rector Trinity Memorial Church	1997
T. Cecil Wray, Esq.* New York, NY	Retired Partner Debevoise & Plimpton	2002

\* Not affiliated with the Company or any other company in the holding company system

In 2003, Noreen P. Suriner resigned from the board and was replaced by Quintin E. Primo, III.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2002:

<u>Name</u>	<u>Title</u>
Alan F. Blanchard	President
Thomas C. Barron	Executive Vice President
Jimmy W. Morrison	Senior Vice President
Barton T. Jones*	Senior Vice President
Daniel A. Kasle	Senior Vice President
James E. Thomas	Vice President, Actuary
Wesley R. Underwood	Vice President Treasurer
James W. Dooley	Vice President
Michael E. Macdonald	Vice President

\*Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

#### D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business only in the state of New York. In 2002, 15% of life premiums were received from New York. The Company issues individual and group life insurance to Episcopal clergy and lay workers. The Company issues insurance on the lives of residents outside New York through direct mail solicitation. Policies are written on a non-participating basis.

The Company has no agency force and pays no commissions.

E. Reinsurance

As of December 31, 2002, the Company had reinsurance treaties in effect with two companies, both of which were authorized or accredited. The Company's life insurance business is reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$100,000. The total face amount of life insurance ceded as of December 31, 2002, was \$51,980,750, which represents 5.2% of the total face amount of life insurance in force.

#### 4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, <u>1997</u>	December 31, <u>2002</u>	<u>Increase</u>
Admitted assets	\$ <u>195,865,809</u>	\$ <u>243,976,453</u>	\$ <u>48,110,644</u>
Liabilities	\$ <u>163,652,037</u>	\$ <u>203,488,803</u>	\$ <u>39,836,766</u>
Common capital stock	\$ 6,000,000	\$ 6,000,000	\$ 0
Gross paid in and contributed surplus	6,000,000	6,000,000	0
Aggregate write-ins for special surplus funds	1,215,739	1,499,213	283,474
Unassigned funds (surplus)	<u>18,998,033</u>	<u>26,988,437</u>	<u>7,990,404</u>
Total capital and surplus	\$ <u>32,213,772</u>	\$ <u>40,487,650</u>	\$ <u>8,273,878</u>
Total liabilities, capital and surplus	\$ <u>195,865,809</u>	\$ <u>243,976,453</u>	\$ <u>48,110,644</u>

The Company's invested assets as of December 31, 2002, were mainly comprised of bonds (62.7%), other invested assets (27.6%), and cash and short-term investments (6.7%). The Company's entire bond portfolio, as of December 31, 2002, was comprised of investment grade obligations.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Ordinary:					
Life insurance	\$ 472,386	\$ 478,176	\$ 478,182	\$ 710,688	\$ 124,265
Individual annuities	1,752,537	778,392	943,805	(435,028)	957,304
Supplementary contracts	<u>(48,241)</u>	<u>61,174</u>	<u>267,586</u>	<u>162,570</u>	<u>10,993</u>
Total ordinary	<u>\$2,176,682</u>	<u>\$1,317,742</u>	<u>\$1,689,573</u>	<u>\$ 438,230</u>	<u>\$1,092,562</u>
Group life	<u>\$1,266,911</u>	<u>\$ 593,011</u>	<u>\$ 339,971</u>	<u>\$1,931,951</u>	<u>\$ 847,319</u>
All other lines	<u>\$ _____ (21)</u>	<u>\$ _____ 2</u>	<u>\$ _____ (2)</u>	<u>\$ _____ 0</u>	<u>\$ _____ 3</u>
Total	<u>\$3,443,572</u>	<u>\$1,910,755</u>	<u>\$2,029,542</u>	<u>\$2,370,181</u>	<u>\$1,939,884</u>

The increase in the individual life gain in 2001 was the result of the Company experiencing positive mortality in that line.

The decrease in the individual annuity results in 1999 was due to the lower returns that the Company experienced on its investments. The lower returns prompted an increase in annuity surrenders for that year. In 2001 there was an additional drop in the annuity line of business, this decrease was driven by the increased depreciation and consulting costs related to the Company's annuity administration systems.

The decrease in the group life results in 1999 was due to the payment of a single large death claim in 1999. The large claim was incurred upon the death of one of the officers of the Company and the single claim skewed the results for that year. The increase in the group life line in 2001 was the result of the Company experiencing positive mortality in this line.

## 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2002, as contained in the Company's 2002 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review.

### A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2002

#### Admitted Assets

Bonds	\$152,860,699
Common stocks	4,590,798
Policy loans	625,713
Cash and short term investments	16,315,792
Life insurance premiums and annuity considerations deferred and uncollected on in force business	230,965
Investment income due and accrued	1,737,582
Receivable from parent, subsidiaries and affiliates	398,149
Funds held as administrative – Lay Pension Plan	67,097,359
Other assets	<u>119,396</u>
 Total admitted assets	 <u>\$243,976,453</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$119,164,091
Liability for deposit-type contracts	7,293,769
Policy and contract claims	
Life	2,837,716
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	21,833
Policy and contract liabilities	
Interest maintenance reserve	4,886,743
General expenses due or accrued	563,797
Taxes, licenses and fees due or accrued	100,000
Remittances and items not allocated	38,688
Miscellaneous liabilities	
Asset valuation reserve	1,484,807
Funds held as administrator – Episcopal Lay Pension Plan	<u>67,097,359</u>
 Total liabilities	 \$ <u>203,488,803</u>
 Common capital stock	 \$ 6,000,000
Gross paid in and contributed surplus	6,000,000
Aggregate write-ins for special surplus funds	1,499,213
Unassigned funds (surplus)	<u>26,988,437</u>
 Total capital, surplus and other funds	 \$ <u>40,487,650</u>
 Total liabilities, capital, surplus and other funds	 \$ <u>243,976,453</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Premiums and considerations	\$15,889,270	\$15,668,720	\$15,308,398	\$17,208,803	\$21,028,236
Investment income	10,609,201	11,096,767	10,940,329	10,389,307	9,705,709
Miscellaneous income	<u>1,089,801</u>	<u>1,282,224</u>	<u>1,939,212</u>	<u>2,657,621</u>	<u>2,292,371</u>
Total income	<u>\$27,588,272</u>	<u>\$28,047,711</u>	<u>\$28,187,939</u>	<u>\$30,255,731</u>	<u>\$33,026,316</u>
Benefit payments	\$18,026,666	\$19,095,195	\$19,311,964	\$13,223,968	\$14,613,967
Increase in reserves	1,248,941	1,391,591	696,103	6,505,654	9,026,255
General expenses and taxes	4,904,166	5,667,419	6,331,675	8,197,704	7,443,875
Increase in loading on deferred and uncollected premiums	(38,093)	(20,191)	(84,111)	(44,092)	(574)
Miscellaneous deductions	<u>3,019</u>	<u>2,941</u>	<u>(97,228)</u>	<u>2,316</u>	<u>2,909</u>
Total deductions	<u>\$24,144,699</u>	<u>\$26,136,955</u>	<u>\$26,158,403</u>	<u>\$27,885,550</u>	<u>\$31,086,432</u>
Net gain (loss)	\$ 3,443,573	\$ 1,910,756	\$ 2,029,536	\$ 2,370,181	\$ 1,939,884
Net realized capital gains (losses)	<u>1,016,167</u>	<u>653,595</u>	<u>386,632</u>	<u>(437,049)</u>	<u>(1,428,451)</u>
Net income	<u>\$ 4,459,740</u>	<u>\$ 2,564,351</u>	<u>\$ 2,416,168</u>	<u>\$1,933,132</u>	<u>\$ 511,397</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Capital and surplus, December 31, prior year	<u>\$32,213,773</u>	<u>\$36,774,713</u>	<u>\$39,088,253</u>	<u>\$39,392,642</u>	<u>\$40,344,512</u>
Net income	\$ 4,459,740	\$ 2,564,351	\$ 2,416,168	\$ 1,933,132	\$ 511,397
Change in net unrealized capital gains (losses)	486,335	156,507	(881,317)	(628,572)	(1,050,111)
Change in non-admitted assets and related items	187,652	(217,210)	(675,136)	179,873	828,585
Change in asset valuation reserve	(172,787)	259,892	(55,326)	(32,563)	353,262
Dividends to stockholders	<u>(400,000)</u>	<u>(450,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>
Net change in capital and surplus	<u>\$ 4,560,940</u>	<u>\$ 2,313,540</u>	<u>\$ 304,389</u>	<u>\$ 951,870</u>	<u>\$ 143,133</u>
Capital and surplus, December 31, current year	<u>\$36,774,713</u>	<u>\$39,088,253</u>	<u>\$39,392,642</u>	<u>\$40,344,512</u>	<u>\$40,487,645</u>

#### D. RESERVES

A review of the Company's December 31, 2002 asset adequacy analysis suggested that additional reserves would be appropriate for the individual annuity business, in light of the prevailing low interest rate environment. In response to these concerns and to ensure the continuing adequacy of overall reserves, the Company strengthened individual annuity reserves by the amount of \$13,545,233 as of December 31, 2003.

## 6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

### A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

### B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

### C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

### D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the "Supplement"), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted, in a timely manner, a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company reported that its review did not reveal any underwriting practices by itself which were based on race, color or national origin except for the period from August 30, 1949 to June 5, 1950 when the Company refused to “accept applications from Orientals residing either in this country or abroad.” (This policy predates the adoption of statutory provisions prohibiting such policies.) The Company however did not prepare formal working papers to support its submitted response. In addition, certain documentation pertaining to the Company’s policies and practices during the relevant time period had been discarded in accordance with the Company’s regular record retention practices, which were not inconsistent with regulatory retention requirements and was not therefore available for the Company’s or the examiner’s review.

A review was made into the affairs of the Company with respect to race-based underwriting and the findings reported pursuant to the Supplement. The examination included a review and analysis of Church Life policy application files which were selected for review using sampling techniques designed by the Department to enhance the likelihood of identifying African American insureds. Premiums actually charged African American applicants could not be compared with premiums charged to Caucasians on similar policies as no such similar policies were identified in the limited number of remaining inforce policies. Thus, the examiner was unable to verify that premiums charged African American policyholders were identical to premiums charged Caucasians issued similar policies.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and the recommendation contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 91.4(a)(2) of Department Regulation No. 33 by not maintaining records with sufficient details to show fully the actual bases of its expense allocations.</p> <p>A review of the Company's records showing the detail for the allocation of expenses revealed that the Company now maintains adequate records.</p>
B	<p>The examiner recommends that the Company set up a central complaint log to register and monitor all complaint activity, as required by Circular Letter No 11 (1978).</p> <p>A review indicated that the Company has established a central complaint log.</p>
C	<p>The Company violated Section 701 of the New York Abandoned Property Law when it failed to file all required abandoned property reports.</p> <p>A review indicated that the Company filed the required abandoned property reports.</p>

8. SUMMARY AND CONCLUSIONS

Following is the comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company strengthened individual annuity reserves by the amount of \$13,545,233 as of December 31, 2003, in light of concerns relating to low interest rates.	14



**APPOINTMENT NO. 22063**

**STATE OF NEW YORK**  
**INSURANCE DEPARTMENT**

I, **GREGORY V. SERIO**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

**PHARES CATON**

*as a proper person to examine into the affairs of the*

**CHURCH LIFE INSURANCE CORPORATION**

*and to make a report to me in writing of the condition of the said*

**COMPANY**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 19th day of June, 2003*



**GREGORY V. SERIO**  
Superintendent of Insurance

*[Handwritten Signature]*  
Superintendent